

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 7, 2011
POSITION: Oppose
SPONSOR: Faculty Association of the California Community Colleges

BILL NUMBER: AB 478
AUTHOR: R. Hernandez

BILL SUMMARY: Community Colleges: Funding

This bill would increase the California community college (CCC) growth funding rate by including the annual state unemployment percentage that exceeds five percent to the growth rate calculation. The current growth rate calculation caps the unemployment portion of the formula at two percent.

The bill would also require the California Community College Chancellor's Office (CCCCO) to determine the unemployment rate to be included in the growth rate calculation and report the determined amount to the Department of Finance with an accompanying rationale. Furthermore, the bill would change the reportable unemployment period from the most recently completed fiscal year to the most recently completed calendar year.

FISCAL SUMMARY

This bill would create a Proposition 98 General Fund cost pressure in the tens to hundreds of millions of dollars by expanding the CCC growth rate to include the state unemployment rate that exceeds five percent. The calculated apportionment growth rate for 2011-12 under current law is 3.1 percent, which equates to approximately \$181 million Proposition 98 General Fund. Applying the current unemployment rate of approximately 12 percent to the requirements of this bill would generate a growth rate of 8.1 percent, which would equate to approximately \$472 million.

COMMENTS

The Department of Finance opposes this bill for the following reasons:

- The bill would create a Proposition 98 General Fund cost pressure in the tens to hundreds of millions of dollars when the state is least likely to afford it. High unemployment typically reflects a poor economy that results in reduced state revenues. Therefore, the practical effect of this bill would be increased growth funding when the state is likely dealing with difficult budget decisions that accompany reduced revenues.
- Requiring the portion of the state unemployment rate that exceeds five percent to be applied to the CCC growth rate assumes a questionable premise that the number of unemployed workers enrolling in CCC would increase in proportion to the unemployment rate. Further, we question the premise that policy makers are unaware of CCC demand when state unemployment increases since there are 112 colleges throughout the state that are represented by various advocacy groups.
- Basing growth funding on the unemployment rate that exceeds five percent would inflate future funding levels when the unemployment rate declines since growth funding is added to ongoing base apportionment funding. Making subsequent annual growth adjustments based on a higher unemployment rate component would compound this effect.

Analyst/Principal (0331) E. Hanson	Date	Program Budget Manager Nick Schweizer	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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R. Hernandez

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- The bill is unnecessary since policy makers can increase or decrease CCC growth funding based on program priorities and available funding, regardless of any statutory growth rate. Furthermore, existing law authorizes the CCCCCO to calculate and add to the growth rate the number of full-time equivalent students in the areas of transfer, vocational education and basic skills that were unfunded in the current year.
- Notwithstanding the previously noted concerns, it is unclear why the CCCCCO would be designated to determine and report on the state's unemployment rate since it has no expertise in this area. According to the author's office, the intent is for the CCCCCO to report the unemployment percent that exceeds five percent; however, the bill does not specify what unemployment rate should be used. As result, the CCCCCO would be free to use the unemployment rate of its choosing, or potentially develop its own. The Department of Finance or the Employment Development Department would be better suited to provide official state unemployment data.

Current law establishes the annual CCC growth rate as the sum of the annual percentage change in the state's adult population and the extent that the state unemployment rate exceeds five percent, but not to exceed seven percent. Therefore, the unemployment rate percentage added to the growth rate is capped at two percent. The two percent cap is a practical approach that limits cost pressure during periods of fiscal duress, while also reflecting the potential increase in unemployed workers that could enroll in CCC. The 2011-12 estimated growth rate of 3.1 percent is the sum of the two percent unemployment cap and the 1.1 percent change in the state's adult population.

Current law also authorizes the CCCCCO to calculate, as specified, and add to the growth rate the number of full-time equivalent students in the areas of transfer, vocational education and basic skills that were unfunded in the current year.

According to the author's office, this bill would align the CCC growth adjustment to reflect increased student demand during periods of high unemployment. The CCCCCO notes that increasing the growth rate to more accurately reflect the state's unemployment rate would provide policy makers a more accurate reflection of CCC demand.

The Governor's Budget proposed apportionment growth funding \$110 million Proposition 98 General Fund, which represents a 1.89 percent growth rate. However, the Legislature shifted this funding to base apportionments; therefore, the Budget Act of 2011 technically does provide any growth funding. The statutory growth rate for 2011-12 is 3.1 percent; however, the state's current fiscal condition does not allow for the full growth funding of any Proposition 98 programs.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Code
6870/Comm College	LA	Yes	-----	See Fiscal Summary				-----	0001